

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 FEAE-00 SP-03 AID-20 EB-11

NSC-07 RSC-01 CIEP-03 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 CIAE-00 COME-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /184 W

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R 151415Z AUG 74

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 4011

INFO AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE GUATEMALA 4421

E.O. 11652: N/A

TAGS: ECON, GT

SUBJECT: GOVERNMENT ANTI-INFLATION PLAN

PRESIDENT LAUGERUD OUTLINED GOG ANTI-INFLATION PROGRAM DURING NEWS CONFERENCE YESTERDAY AFTERNOON AND MESSAGE WAS BROADCAST ON NATIONWIDE TELEVISION IN THE EVENING. MAJOR POINTS OF PROGRAM FOLLOW:

1. GOVERNMENT WORKERS TO RECEIVE SALARY INCREASES EFFECTIVE SEPTEMBER 15. INCREASES VARY ACCORDING TO CURRENT MONTHLY WAGES WITH LOWEST PAID WORKERS RECEIVING LARGEST INCREASES.

2. THE PRIVATE SECTOR, ACCORDING TO LAUGERUD, HAS AGREED TO GRANT GENERAL WAGE INCREASES TO ITS WORKERS ALSO.

3. THE EXECUTIVE WILL SEND TO CONGRESS A DRAFT LAW TO WIDEN LIMITED OFFICIAL USE

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THE COVERAGE OF MINIMUM WAGE LEGISLATION.

4. THE PRICES OF BASIC FOODSTUFFS AND MEDICINES WILL BE CONTROLLED.

5. MORE CREDIT WILL BE MADE AVAILABLE THROUGH BANDESA FOR PLANTING OF THE SECOND CROPS OF CORN AND BEANS. BANDESA WILL ALSO LOWER ITS INTEREST RATE 3 POINTS TO 5 PERCENT, PROCESS CREDIT APPLICATIONS IN RURAL AREAS, AND CEASE REPOSSESSION PROCEEDINGS AGAINST DELINQUENT ACCOUNTS. BANDESA'S PAID-IN CAPITAL TO BE INCREASED BY Q2 MILLION.

6. GOG WILL APPROPRIATE Q29 MILLION PURCHASE OF FERTILIZERS. ESTIMATED NEEDS ARE 75,000 MT.

7. THE EXPORT OF BASIC FOOD STUFFS, WOOD AND OTHER "ESSENTIAL" PRODUCTS WILL BE RESTRICTED. PREVIOUSLY GRANTED LICENSES FOR THE EXPORT OF PRODUCTS HAVE BEEN REVOKED IN MOST CASES.

8. THE MINISTERS OF GOVERNMENT AND DEFENSE ARE TO COMBINE EFFORTS TO END CONTRABAND TRADE IN BASIC GRAINS.

9. GOG WILL APPROPRIATE Q14 MILLION THROUGH INDECA FOR THE IMPORT OF BASIC GRAINS TO BE SOLD AT COST. INDECA IS ALSO TO AID SMALL FARMERS IN ACQUIRING EQUIPMENT AND PESTICIDES AND TO ACCELERATE ITS GRAIN SILO CONSTRUCTION PROJECT.

10. THE PRICES OF KEY RAW MATERIALS SUCH AS PETROLEUM WILL REMAIN UNDER CONTROLS. ALL EFFORTS WILL BE MADE TO MAINTAIN KEROSENE AND DIESEL AT RELATIVELY LOW LEVELS.

11. GOG WILL ENACT AUSTERITY PROGRAM TO INSURE THAT FEDERAL GOVERNMENT ONLY MAKES ABSOLUTELY NECESSARY EXPENDITURES.

12. NEW ELECTRICITY RATES WILL BE FORTHCOMING FOR RESIDENTIAL CONSUMERS.

13. A NEW TAX PACKAGE IS BEING PREPARED AND WILL BE SENT TO CONGRESS SHORTLY.

14. COMMENT: INDEPTH ANALYSIS OF PROGRAM IMPOSSIBLE AT PRESENT. LIMITED OFFICIAL USE

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WE HAVE BEEN PROMISED DETAILS OF PROGRAM AND WILL ANALYZE IT IN AIRGRAM WHEN RECEIVED. HOWEVER, SPEECH RAISES TWO TYPES OF QUESTIONS. IN REGARD TO SEVERAL INDIVIDUAL POINTS: A) TO WHAT EXTENT HAS PRIVATE SECTOR ACTUALLY AGREED TO WAGE INCREASES? B) ARE GOG EXPENDITURES MENTIONED IN PROGRAM ALL NEW EXPENDITURES OR ARE A PORTION OF THEM ALREADY COVERED IN 1974 BUDGET? C) EXACTLY WHAT PRODUCTS WILL BE UNDER EXPORT RESTRICTIONS? D) WHAT SPECIFIC TAXES WILL BE PROPOSED AND HOW MUCH CAN THEY BE

EXPECTED TO RAISE? (ESPIE LAUGERUD'S ASSERTION THAT TAXES WILL FALL ON THOSE MOST ABLE TO PAY, WE HAVE HEARD RUMORS THAT TAXES PROPOSED WILL NOT BE SUFFICIENT TO FINANCE NEW EXPENDITURES AND WILL ALSO BE REGRESSIVE IN NATURE).

15. OVERALL PROGRAM'S IMPACT AS ANTI-INFLATIONARY WEAPON IN-DETERMINABLE PRESENTLY. PROGRAM DOES NOT ADDRESS MACRO ISSUES OF MONEY SUPPLY AND CREDIT. THIS MAY BE ADVANTAGE OR DIS-ADVANTAGE. IF ECONOMY HAS SLOWED DOWN SIGNIFICANTLY THEN MONEY CRUNCH COULD LEAD TO RECESSION. ON THE OTHER HAND, IF ECONOMIC SLOWDOWN IS NOT YET TOO PRONOUNCED FREE MONEY POLICY, INCREASED GOG DEFICIT AND HIGHER WAGES COULD SPUR A WAGE-PRICE SPIRAL.
DECONTROL AFTER 8/14/76
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